

WOODS, ROGERS
& HAZLEGROVE

Attorneys at Law

Anthony Gambardella
804 343-5022
agambard@woodsrogers.com

February 7, 2003

BY HAND

Joel H. Peck, Clerk
State Corporation Commission
Document Control Center
Tyler Building, First Floor
1300 East Main Street
Richmond, Virginia 23219

Re: Case No. PUE-2002-00645

Dear Mr. Peck:

On behalf of Appalachian Power Company, enclosed please find an original and fifteen (15) copies of Comments in the above referenced case.

Thank you for your assistance in this matter.

Very truly yours,

WOODS, ROGERS & HAZLEGROVE, P.L.C.



Anthony Gambardella

/ps
Enclosures

cc: Arlen K. Bolstad
Certificate of Service

RICH# 409030.WPD-1

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bc: Barry L. Thomas
James R. Bacha

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

At the relation of the

STATE CORPORATION COMMISSION

Case No. PUE-2002-00645

Ex Parte: In the matter concerning
the provision of default service to retail
customers under the provisions of the
Virginia Electric Utility Restructuring

COMMENTS OF APPALACHIAN POWER COMPANY

On December 23, 2002, the Commission issued an "Order Establishing Investigation" ("Order") initiating this proceeding. The Order establishes an investigation into the required elements of default service under § 56-585 of the Virginia Electric Utility Restructuring Act ("Restructuring Act"). It also invites comments from interested parties on certain default service issues in order to frame the discussion of a default service work group established by the Order. Appalachian Power Company, d/b/a American Electric Power ("APCo" or "the Company"), submits these comments as provided in ordering paragraph (4) of the Order.

The Order includes a preliminary list of thirteen questions on which the Commission seeks comments at the outset of this proceeding. The Commission's Order recognizes the need to address default service issues in an orderly manner. The Company agrees with this approach because the default service provisions of the Restructuring Act are complex and require careful implementation.

The list of questions in the Order is a useful starting point for discussion of default service issues. The Company looks forward to participating in the work group and provides these general comments on default service in Virginia as a backdrop to its responses. A brief answer to each question in the Order is contained in Attachment 1 to these comments.

GENERAL COMMENTS

Default service is governed by Section 56-585 of the Restructuring Act. As noted in the Company's letter to the Commission Staff of August 15, 2002, the Company is both an incumbent electric utility and a distributor under the Restructuring Act and must provide default service unless the Commission designates another default service provider for its customers. In addition, the Company is entitled to continue to provide distribution service in its certificated service territory in Virginia pursuant to Section 56-580 E, regardless of the Commission's designation of another provider of default service under Section 56-585.

Section 56-585 A defines default service as follows:

For purposes of this chapter, "default service" means service made available under this section to retail customers who (i) do not affirmatively select a supplier, (ii) are unable to obtain service from an alternative supplier, or (iii) have contracted with an alternative supplier who fails to perform. (emphasis added).

By law, the Commission must determine the components of default service and make such services available to retail customers requiring them by January 1, 2004, the date when customer choice is available to all retail customers in the Commonwealth. Pursuant to Section 56-585 B 2, the Commission may periodically, as necessary, conduct competitive bidding processes under procedures established by it and, upon a finding that the public interest will be served, designate one or more willing and suitable providers to provide one or more components of such services, in one or more regions of the Commonwealth, to one or more classes of customers.

Under Section 56-585 C 1, the rates for default service provided by a distributor shall equal the capped rates established pursuant to subdivision A 2 of Section 56-582, until the expiration or termination of capped rates. Section 56-583 B provides that customers that receive default service from an entity other than the distributor, prior to the expiration of the period for capped rates, must pay a wires charge until capped rates expire or are terminated. After the expiration or termination of such capped rates, the rates for default services shall be based upon competitive market prices for electric generation services, pursuant to Section 56-585 C 1.

Although default service may continue to be a necessary service after the expiration or termination of capped rates, the circumstances under which such service would be provided will be different than those in place during the capped rate period. In keeping with the Commission's decision to address default service issues in a sequential and orderly manner, APCo recommends that the work group initially focus on default service issues during the capped rate period. To the extent necessary, the answers contained in the attachment are drafted from this perspective.

CONCLUSION

The Company appreciates the opportunity to provide the foregoing general comments and the answers attached hereto in advance of the work group's first meeting. APCo looks forward to working with the Staff and other stakeholders, within the process established by the Commission, to develop a reasoned and reasonable approach to default service in the Commonwealth for the period January 1, 2004 through June 30, 2007. Once the issues related to default service during the capped rate period have been addressed and the process is in place for a period of time, the work group can better address the issues related to default service after the capped rate period.

Respectfully submitted.

APPALACHIAN POWER COMPANY

By: Anthony Gambardella
Of Counsel

Anthony Gambardella, Esq.
Woods, Rogers & Hazlegrove, P.L.C.
823 East Main Street, Suite 1200
Richmond, Virginia 23219
tel. (804) 343-5020
fax. (804) 343-5021

James R. Bacha, Esq.
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215.
(614) 223-1000

Counsel for Appalachian Power Company

ATTACHMENT 1

**Appalachian Power Company's Responses to
Default Service Questions Contained in the
Virginia State Corporation Commission's
December 23, 2002 Order in
Case No. PUE-2002-00645**

As indicated in the Company's Comments, to the extent necessary, the following responses focus on the provision of default service during the capped rate period from January 1, 2004 through June 30, 2007.

1. What should be the specific components of default service?
 - Retail default service should include the components of generation, transmission, and ancillary related services that are consistent with the services included in offers by competitive service providers, which may include, but are not limited to, hourly scheduling, ancillary services, capacity requirements, transmission losses, retail distribution losses, and energy imbalance. (Retail Default Service). Distribution service, which is subject to SCC regulation, is not a component of Retail Default Service.
 - Permitting Retail Default Service Providers to provide only some, but not all, components of Retail Default Service will increase costs, cause confusion among customers, and create transactional and administrative problems. There should be a single Retail Default Service offer for customers, or for the different classes of customers (see the Company's response to Question 8.), in each incumbent utility's service territory. The offer should be for a specified period of time.
2. Whether, given the virtual absence of competition in Virginia's retail generation market, incumbent electric utilities should continue to provide default service at capped rates at the present time; if so, what changes in statute, policy, infrastructure, market conditions, and/or other circumstances are necessary to allow for the practical provision of default service by an entity other than the incumbent?
 - If the Commission determines that incumbent electric utilities (i.e., distributors) should continue to provide Retail Default Service at capped rates at the present time, the Company knows of no required changes to existing law, policy or infrastructure.
 - If entities other than the incumbent electric utility are interested in providing Retail Default Service during the capped rate period, then a competitive bidding process, as envisioned by Section 56-585 B 2, would be necessary. Besides developing an appropriate bidding process, it will be necessary for any relevant Competitive Service Provider rules to be made applicable to such Retail Default

Service Providers and, because such Retail Default Service Providers will become the *de facto* provider of last resort and possibly the emergency service provider, even more stringent safeguards as to such things as reliability and financial integrity will need to be imposed upon them. Correspondingly, if Retail Default Service is to be provided by a Retail Default Service Provider other than the incumbent electric utility during the capped rate period, then incumbent electric utilities must be entitled to recover appropriate costs and to market the generation that is displaced for the period of the Retail Default Service offer.

3. What should be the geographic scope of a default service provider's territory, i.e., statewide, incumbent utility service territory, regions served by specific regional transmission entities; divisions with an incumbent utility's service territory; major metropolitan and surrounding areas, etc?
 - The geographic scope of a Retail Default Service Provider should be each incumbent utility's service territory. However, potential Retail Default Service Providers should be permitted to bid to provide Retail Default Service in any or all incumbent electric utilities' service territories.
4. Whether default service, as contemplated by Sec 56-585 of the Act, should be limited to unregulated services, i.e., is it necessary to designate distribution as a default service?
 - It is not necessary to designate distribution service as a Retail Default Service. Distribution service is a regulated service that can only be provided by the incumbent electric utility irrespective of who provides Retail Default Service.
5. For generation-related default service, whether the separate components of generation service to retail customers (capacity or resource reservation, energy, transmission, and ancillary services) should be treated as separate default services or bundled into a single service?
 - See the Company's response to Question 1.
6. For generation-related default service, whether the service should be delivered to the retail customer or to the incumbent utility?
 - Pursuant to Section 56-585 A, Retail Default Service must be made available to retail customers.
7. Whether the language of the statute prohibits the provision of default service to an incumbent utility on behalf of a group of customers, i.e., could a third party provide service to an incumbent utility for indirect service to retail customers (service to satisfy load growth, specific localities, or to customer subgroups)?
 - See the Company's responses to Questions 6 and 8.

8. Whether the provision of default services should differ by customer class?

- Retail Default Service could differentiate between customers without demand metering (residential and small commercial) and customers with demand metering (large commercial and industrial) for pricing purposes.

9. Whether different components of default service can be provided by different suppliers?

- See the Company's response to Question 1. Other services, such as meter services, meter data management, and billing and collecting services, could have separate service providers once they are competitive. Providers of these services would need to coordinate through the Retail Default Service Provider. The distributor should be adequately compensated for services it provides.

10. Whether default service has the same meaning for different classes of customers, i.e., those who do not affirmatively select a supplier, those who are unable to obtain service from an alternative supplier, or those who have contracted with an alternative supplier who fails to perform?

- Retail Default Service has the same meaning for all types of Retail Default Service customers mentioned above. However, the prices and structures could vary as described in the Company's response to Question 8.

11. How should charges for default service be collected?

- Charges for Retail Default Service may be collected by the Retail Default Service Provider, the incumbent electric utility or a third party. Billings for such service can be performed on a consolidated basis, reflecting Retail Default Service and regulated distribution service, in order to minimize customer confusion. The distributor should be adequately compensated for billing and other services it provides.

12. Whether metering, billing and collecting services should be deemed components of default service?

- No. See the Company's responses to Questions 1 and 9. These services are currently offered by APCo under its Standard Tariff and OAD Tariff.

13. What implications would the alternative provision of default service have for the determination of wires charges?

- Section 56-583 B provides that customers receiving default service from other than the incumbent electric utility (i.e., distributor), prior to the expiration of capped rates, are subject to wires charges.

CERTIFICATE OF SERVICE

This is to certify that copies of the foregoing "Statement of Interest" was served this 7th day of February, 2003, by hand delivery or first class mail, postage prepaid, on the persons listed in the attached service list.

Anthony Lombardi

SERVICE LIST PUE-2002-00645

Vernon H. Brinkley, President
A&N Electric Cooperative
P.O. Box 1128
Parksley, VA 23421

Howard L. Scarbro
General Manager
Central Virginia Electric Cooperative
P.O. Box 247
Lovingston, VA 22949

Mark Neal
Manager
Commonwealth Public Service Corporation
P.O. Box 589
Bluefield, WV 24701

Mack Wathen,
Director Planning
Conectiv Power Delivery
P.O. Box 9239
Newark, DE 19714

John Bowman
Executive Vice President/Gen. Manager
Mecklenburg Electric Cooperative
P.O. Box 2451
Chase City, VA 23924

Joe Curia, President
NUI-Virginia Gas Distribution
200 East Main Street
Abingdon, VA 24210

Bryan Moorhouse
Vice-President
Allegheny Power
10435 Downsville Pike
Hagerstown, MD 21740

Richard L. Weaver

General Manager
BARC Electric Cooperative
P.O. Box 264
Millboro, VA 24460

Peggy Landini
Executive Vice-President & COO
Columbia Gas of Virginia, Inc.
P.O. Box 35674
Richmond, VA 23235

James M. Reynolds, General Manager
Community Electric Cooperative
P.O. Box 267
Windsor, VA 23487

Edgar M. Roach, Jr., President
Dominion VA Power
P.O. Box 26666
Richmond, VA 23261

Charles Rice, Jr., President
Northern Neck Electric Cooperative
P.O. Box 288
Warsaw, VA 22572

Randall W. Meyers
General Manager
Powell Valley Electric Cooperative
P.O. Box 1528
New Tazewell, VA 37879

Cecil E. Viverette, Jr., President
Rappahannock Electric Cooperative
P.O. Box 7388
Fredericksburg, VA 22404

John B. Williamson, President
Roanoke Gas Company

P.O. Box 13007
Roanoke, VA 24011

M. Larry Longshore, President
Southside Electric Cooperative
P.O. Box 7
Crewe, VA 23930

Allan McClain, President
Southwestern Virginia Gas Company
208 Lester Street
Martinsville, VA 24112

James H. DeGraffenreidt
Chairman
Washington Gas Light Company
1100 H. Street, N.W.
Washington, DC 20080

Stanley C. Feuerberg, President
Northern Virginia Electric Cooperative
P.O. Box 2710
Manassas, VA 20108

M. Dale Bradshaw, CEO
Prince George Electric Cooperative
P.O. Box 168
Waverly, VA 23890

C. Douglas Wine, President
Shenandoah Valley Electric Cooperative
P.O. Box 236
Mt. Crawford, VA 22841

Thomas R. Blose, Jr., President
United Cities Gas Company
c/o Atmos Energy Corporation
810 Crescent Centre Drive
Suite 600
Franklin, TN 37067

Gerald H. Groseclose
General Manager
Craig-Botetourt Electric Cooperative
P.O. Box 265

New Castle, VA 24127

Michael S. Beer
Vice-President
LG&E Energy Corporation
220 West Main Street
Louisville, KY 40202

John Wolfram
Manager, Regulatory Policy
Kentucky Utilities
P.O. Box 32030
Louisville, KY 40232

John A. Pirko
LeClair Ryan
4201 Dominion Blvd, Suite 200
Glen Allen, VA 23060

James D. Latimer
Vice-President, State Affairs
Allegheny Power
10435 Downsview Pike
Hagerstown, MD 21740

Pamela J. Walker
Deputy General Counsel
Dominion Resources Services, Inc.
P.O. Box 26532
Richmond, VA 23261

Howard L. Scarboro
General Manager
Central Virginia Electric Cooperative
P.O. Box 247
Lovingston, VA 22949

Donald R. Hayes
Senior Attorney
Washington Gas Light Company
1100 H. Street, N.W.
Washington, D.C. 20080

James Shockley
Manager
Commonwealth Public Service Corporation
P.O. Box 589
Bluefield, VA 24701

Joseph A. Curia
Vice-President & General Manager
Virginia Gas Distribution Company
1096 Ole Berry Drive
Abingdon, VA 24210

Paul Shlanta
President & General Counsel
AGL Resources
817 West Peachtree Street, N.E.
Atlanta, GA 30308

James S. Copenhaver
Columbia Gas of Virginia, Inc.
P.O. Box 35674
Richmond, VA 23235

Howard W. Dobbins
Williams, Mullen, Clark & Dobbins
1021 E. Cary Street, 16th Floor
2 James Center
Richmond, VA 23219

Guy T. Tripp III
Riverfront Plaza
East Tower
951 East Byrd Street
Richmond, VA 23219-4074

Deborah J. Henry
Allegheny Energy Service Corp.
800 Cabin Hill Drive
Greensburg, PA 15601

Christy A. McCormick
Office of Attorney General
Division of Consumer Counsel
900 E. Main Street, 2nd Floor
Richmond, VA 23219

Karen Bell
Dominion Resources Services
120 Tredegar Street
P. O. Box 26532
Richmond, VA 23261

Adam Chmara
Pepco Energy Services
1300 N. 17th St., Suite 1600
Arlington, VA 22209

Craig G. Goodman, President
National Energy Marketers Association
3333 K Street, NW, Suite 425
Washington, DC 20007

Carolyn L. Conrad
Allegheny Energy Supply Co., LLC
4350 Northern Pike
Monroeville, PA 15146

Michel A. King, President
Old Mill Power Company
103 Shale Place
Charlottesville, VA 22902

Philip J. Bray
Potomac Edison d/b/a
Allegheny Power Co.
10435 Downsville Pike
Hagerstown, MD 21740-1766

Kathleen Magruder, Vice President
The New Power Company
1 Manhattanville Road
Purchase, NY 10577-2100

Dale P. Moore
Roanoke Gas Company
519 Kimball Avenue, NE
Roanoke, VA 24030

Chris King
American Energy Institute
842 Oxford Street
Berkeley, CA 94707

Irene Leech
Virginia Citizens Consumer Council
4220 N. Fork Road
Elliston, VA 24087

D. R. Beam, Manager
Old Dominion Electric Cooperative
4201 Dominion Boulevard
Glen Allen, VA 23060

George C. Roberts
Director Regulatory Relations
SchlumbergerSema NA
30000 Mill Creek Avenue, Suite 100
Alpharetta, GA 30022

R. L. Terpenney, Town Manager
Town of Christiansburg
100 E. Main Street
Christiansburg, VA 24073

Debra M. Whitner
Senior Regulatory Analyst
LG&E Energy Corp.
220 W. Main Street, Floor 5
Louisville, KY 40202

Robert A. Omer, Vice President
Government Affairs
Virginia Delaware & Maryland Assoc.
P. O. Box 2340
Glen Allen, VA 23058

Martha Duggan
Reliant Energy Wholesale Group
3102 N. Sixth Street
Arlington, VA 22201

Jack Greenhalgh
New Era Energy, Inc.
1340-1272 N. Great Neck Rd., Suite 103
Virginia Beach, VA 23452-2230

Harry A. Warren, Jr., President
Washington Gas Energy Services
950 Herndon Parkway, Suite 280
Herndon, VA 20170

Brian R. Greene
Christian & Barton, LLP
909 E. Main Street, Suite 1200
Richmond, VA 23219

Linda S. Portasik
Kentucky Utilities Company
220 W. Main Street, Floor 11
Louisville, KY 40202

Michael Swider, Manager
Regulatory Affairs
Strategic Energy, LLC
2820 Charles Dunn Drive
Vienna, VA 22180

MaryEllen O'Neill
Washington Gas Energy Services
1100 H Street, NW
Washington, DC 20080

Ransom Owan, Ph.D.
Director, Regulatory & External Affairs
Washington Gas Energy Services
13865 Sunrise Valley Dr., Suite 200
Herndon, VA 20171-3401

August Wallmeyer
700 E. Franklin St., Suite 701
Richmond, VA 23219

Gary Cohen
Special Project Manager
Conectiv Power Delivery
P. O. Box 9239
Newark, DE 19714-9239

Randall V. Griffin
Conectiv Power Delivery
P. O. Box 232
Wilmington, DE 19899

Edward L. Petrini
Christian & Barton, LLP
909 E. Main Street, Suite 1200
Richmond, VA 23219

Gary A. Jeffries
Dominion Resources Services, Inc.
One Chatham Center, Suite 700
Pittsburgh, PA 15219

Teleimac N. Chryssikos
Washington Gas Energy Services
1100 H Street, NW
Washington, DC 20080

Mark G. Thessin
United Cities Gas Company
810 Crescent Center Drive, Suite 600
Franklin, TN 37067-6226

James Copenhaver
NiSource Corporate Services Co.
9001 Arboretum Parkway
Richmond, VA 23235

William R. Moore, Jr.
Manager, Regulatory Issues
Conectiv Power Delivery
P. O. Box 9239
Newark, DE 19714-9239

Thomas B. Nicholson
Williams Mullen
P. O. Box 1320
Richmond, VA 23218-1320

Irene Prezelj
Strategy & Planning
FirstEnergy Solutions
395 Ghent Road, Suite 407
Akron, OH 44333

Matthew Picardi, General Manager
Regulatory Affairs
Shell Trading
27 Winthrop Road
Hingham, MA 02043